TWO KEY RULES HELP BUYERS DECIDE

Buying a home means taking a close look at your overall expenses and housing costs.

The decision to buy a home isn't just about whether or not you can afford the purchase price. It also means taking on responsibility for all the other costs (both anticipated and unexpected) that come with homeownership, according to Canada Mortgage and Housing Corp.

How can you know if you're financially ready to become a homeowner? The following tips may help you figure out your current financial situation and the maximum home price that you should consider: it's important to know how much you can afford to spend on homeownership. In addition to the mortgage payments and interest, other expenses will include heating costs, property taxes, condo fees, and regular home maintenance and repairs.

Start by calculating how much you're already spending each month on household expenses. Next, figure out how much debt you're carrying. If you decide to buy a home, this information will be one of the first things mortgage lenders will ask to see.

Once you've calculated your household and debt expenses, there are two "affordability rules" that can help you figure out how much you can realistically pay for a home.

The first affordability rule is that your total monthly housing costs shouldn't be more than 32 per cent of your gross monthly income. Gross monthly income is the amount of income everyone in your household brings home, before taxes and other deductions. Housing costs include mortgage principal and interest payments, as well as property taxes and heating expenses (or PITH for short).

The second affordability rule is that your entire monthly debt load shouldn't be more than 40 per cent of your gross monthly income. Your monthly debt load includes your housing costs, plus all your other debt payments, such as car loans or leases, student loans, credit card payments, lines of credit payments and so on.

The maximum home price that you can realistically afford depends on a number of factors, in particular your household gross monthly income, your down payment and the mortgage interest rate. For many people, the hardest part of buying a home - especially their first one - is saving the necessary down payment.

If these calculations look encouraging, obtain a copy of your credit report to make sure your credit history is accurate and complete. Then, contact your lender or mortgage broker to figure out which type of mortgage best meets your needs and the amount of mortgage you can afford.

There are many up-front costs when you buy a home, from the down payment and deposit to legal, property and home inspection fees. Early planning will help make sure things go smoothly.